

Message Text

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PAGE 01 OTTAWA 03242 282014Z

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TAGS: ECON, CA

SUBJECT: CANADIAN ECONOMY: SLIGHT RISE IN REAL GNP FOR SECOND QUARTER

1. ON AUGUST 27 STATISTICS CANADA RELEASED GNP FIGURES FOR SECOND QUARTER 1975 SHOWING RISE OF 2.6 PERCENT IN CURRENT DOLLARS AND 0.3 PERCENT INCREASE IN REAL TERMS. SEASONALLY ADJUSTED GNP FOR SECOND QUARTER WAS C\$150,344 MILLION (VICE C\$146,576 MILLION FOR FIRST QUARTER) AND REAL GNP (IN 1971 DOLLARS) WAS C\$107,400 MILLION (VICE C\$107,052 MILLION IN FIRST QUARTER). STATCAN NOTED THAT "RISE IN REAL GNP PROBABLY INDICATES THAT MID-1975 WILL MARK THE TURNING POINT OF THE CURRENT RECESSION.

2. STATCAN REASONED THAT SUBSTANTIAL INVENTORY REDUCTION, INCREASE IN NEW ORDERS FOR DURABLE GOODS AND RISE IN VOLUME OF INVESTMENT FOR RESIDENTIAL CONSTRUCTION WERE IMPORTANT SIGNALS FOR "EARLY PHASE OF RECOVERY".

3. ALL LEVELS OF GOVERNMENT SPENDING ROSE BY 3.1 PERCENT AND WITH DECLINE IN GOVERNMENT REVENUE OF 3.8 PERCENT, COMBINED DEFICIT OF ALL LEVELS OF GOVERNMENT REACHED RECORD C\$6 BILLION (SEASONALLY ADJUSTED ON NATIONAL ACCOUNTS BASIS), WITH C\$5.3 BILLION DEFICIT AT FEDERAL LEVEL.

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PAGE 02 OTTAWA 03242 282014Z

4. OVERALL IMPLICIT PRICE DEFLATOR FOR GNP INCREASED BY 2.3 PERCENT

IN SECOND QUARTER (COMPARED WITH 1.7 PERCENT IN FIRST AND 3.5 PERCENT IN SECOND QUARTER 1974). GOVERNMENT EXPENDITURE DEFLATOR INCREASED FROM 0.6 PERCENT IN FIRST QUARTER TO 3.3 PERCENT IN SECOND "AS A RESULT OF LARGE WAGE SETTLEMENTS".

5. ACCORDING TO STATCAN, "RECORD DEFICIT ON FOREIGN TRADE IN GOODS AND SERVICES EXPERIENCED LAST QUARTER WAS IMPROVED SOMEWHAT BY A 1.8 PERCENT DECREASE IN IMPORTS AND A SIMULTANEOUS 2.7 PERCENT INCREASE IN EXPORTS, LEAVING ON BALANCE A DEFICIT OF C\$4.8 BILLION COMPARED WITH C\$6.6 BILLION LAST QUARTER.... MOST OF THE IMPROVEMENT OCCURRED IN EXPORTS OF MERCHANDISE, PARTICULARLY CARS AND MOTOR VEHICLE PARTS, WHICH MAY REFLECT IMPROVING BUSINESS CONDITIONS IN THE UNITED STATES."

6. COMMENT: ANALYSTS HERE HAVE BEEN PREDICTING SOME IMPROVEMENT IN REAL GNP FIGURES FOR SECOND QUARTER AS SIGNAL FOR SECOND HALF 1975 RECOVERY IN ECONOMY. SOFT SPOTS STILL EXIST IN ECONOMY (MANUFACTURING INVENTORIES ARE STILL HIGH; RESIDENTIAL CONSTRUCTION IS OFF 24 PERCENT FROM YEAR EARLIER FIGURES, AND SECOND QUARTER SHOWED DECREASE IN REAL BUSINESS INVESTMENT IN PLANT AND EQUIPMENT), BUT CANADA'S RECESSION APPEARS TO HAVE BOTTOMED OUT AND ECONOMY EXPECTED TO IMPROVE IN NEXT SIX WEEKS.

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